

JOB SATISFACTION'S MEDIATING EFFECTS ON THE RELATIONSHIP OF ORGANIZATIONAL TRUST AND EMPLOYEE FRAUD RISK: A BASIS FOR A MODEL

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Abstract

This study aimed to examine how much of the mediating role of job satisfaction (JS) contributed to explain the relationship of organizational trust (OT) and employee fraud risk (EFR) in non-profit organizations. EFR could be predicted by component behaviours of OT (competence, openness, honesty, reliability, identification) and JS dimension (existence needs, relatedness needs, and growth needs) as perceived to prevent and reduce fraudulent acts in relation to misappropriation of assets. The survey research design was employed in this study with convenience random sampling technique. The descriptive-correlational design and multiple regression analysis were used to determine the existing relationship among the variables and the predictors of EFR. Structural Equation Modelling was utilized as a basis to proposed EFR model in preventing and reducing EFR. The respondents were 966 regular full-time employees of 14 SDA tertiary schools within the Southern Asia Pacific operational region. The results reveal that "pressure" ranked first as a risk, followed by "opportunities" and "rationalizations." There is a negative and significant relationship between JS degree and EFR factors, and between OT and EFR of the respondents' perception. Reliability, honesty, competence, existence needs, relatedness needs, and growth needs dimensions are the best predictors to reduce EFR. However, there is no direct effect between OT and EFR. The relationship of OT and EFR is fully mediated by JS. In fact, the relation of OT and EFR is because of JS. The results indicate the importance of well-structured organizational trust culture, job satisfaction and effective internal controls against employee fraud risk regarding misappropriation of assets by employees.

Keywords: *Job Satisfaction, Organizational Trust, Employee Fraud Risk*

Introduction

The present trends cannot be ignored that fraud is more common (Wojcik, 2011), and more people may be tempted to engage in fraud, in order to maintain their lifestyles. The painful truth is, that good people can and do commit fraud as well (Hagan, 2008). Furthermore, when employee commits a fraudulent act, there is not direct evidence that a crime has been committed; there are only symptoms, or indicators of fraud (Kula et al, 2011). So, that fraud tends to be frequently a hidden risk, because its perpetrators take extreme care to conceal their activities and remain as an unmanaged risk in organizations

and almost never observed directly. This phenomenon leads to business failure, destroyed careers and even bankruptcy of the organization.

The Problem

These cases of employees' fraud examples produced massive and global failure of trust, including: The accounting firms such as what had happened to Enron and Arthur Andersen in the U.S., known as the "Enron Scandal", that declared bankruptcy in 2001. This case became a popular symbol of corporate fraud and corruption, which brought into question the accounting practices and activities of many corporations. The scandal also affected the wider business world by causing the dissolution of the Arthur Andersen accounting firm (Cunningham & Harris, 2006). Further, KPMG Forensic Accounting surveys reported that employee's fraud cases are globally prevalent, which involve senior executives from 10,000 organizations representing more than 30 different industries in 15 countries. It was found that 82% of all known frauds perpetrated by employees, a third of these are committed by management (Pickett, 2010). Meanwhile, Association of Certified Fraud Examiner (ACFE) study of more than 1,100 cases of occupational fraud during 2004 and 2005 found that a little more than 30% were committed by employees within the accounting department, 20% were committed by upper management or executive-level employees, and more than 14% were committed by sales personnel (Hagan, 2008). In addition, the study of Wells in 1980s of 12,000 employees at work indicated that one-third of employees actually had stolen money or merchandised on the job (Kula et al, 2011).

Invariably happens in church organizations in U.K. as reported in Adventist Review by Medley (2011). Regarding this phenomenon, fraud is a serious problem with difficulties in measuring it (Albrecht et al, 2009). Therefore, it is important to understand what motivates people to commit fraud so it can better assess risk, and assist employers (Wells, 2001).

Theoretical Framework

The theoretical framework of this study is based on the Fraud Triangle Theory that focuses on employee fraud factors, Job Satisfaction of ERG theory and

Organizational Trust Dimensions. The Fraud Triangle Theory identified 3 elements that must be present for employees to commit fraud: 1) a perceived pressure (motivation), 2) a perceived opportunity, and 3) some way to rationalize the fraud as acceptable. (Hagan, 2008). The Job Satisfaction of ERG theory by Aldefer (1972) which was a simplification of the basic human needs degree of Abraham Maslow's theory as laid the foundation for job satisfaction theory into three categories: Existence Needs, Relatedness Needs, and Growth Needs.

The research also supported with a model of OT, which is defines as "The organization's willingness to be appropriately vulnerable based on the belief that another individual, group, or organization is competent, open and honest, concerned, reliable, and identified with common goals, norms, and values" (Shockley-Zalabak et al, 2010).

Research Paradigm

However, competent, openness, honesty, reliability, and identification are five factors of OT on this study that can identify specific organizational attitudes, values, and norms that influence perceptions of OT and distrust; and to empirically examine the relationships among OT/distrust, perceived organizational effectiveness to reduce employee fraud risk, and high job satisfaction as shown in this figure.

Statement of the Problem

The main objective of this study was to examine how much JS contributed to explain the influence of OT on EFR in non-profit organizations. EFR could be predicted by component behaviours of OT dimensions and JS dimensions as perceived to prevent and reduce fraudulent acts in relation to misappropriation of assets. Specifically, this study attempted to answer the following questions:

1. What is the level of organizational trust (OT) of the tertiary schools as perceived by respondents in terms of competence, openness, honesty, reliability, and identification?
2. What is the level of perceived job satisfaction (JS) of the respondents in terms of existence needs, relatedness needs, and growth needs?

3. What is the level of employee fraud risk (EFR) as perceived by respondents in terms of pressures, opportunities and rationalizations?
4. Is there a significant relationship between the degree of organizational trust (OT) dimensions and the degree of job satisfaction (JS) dimensions?
5. Is there a significant relationship between the degree of organizational trust (OT) dimensions and the degree of employee fraud risk (EFR) factors as perceived by respondents?
6. Is there a significant relationship between the degree of job satisfaction (JS) dimensions degree and the degree of employee fraud risk (EFR) factors as perceived by respondents?
7. Which among the following dimensions: Organizational Trust (OT), Job Satisfaction (JS), and Moderator variables best predicts employee fraud risk?
8. Does job satisfaction (JS) significantly contribute to explain the effect of organizational trust (OT) on employee fraud risk (EFR)?
9. Base on the findings, what model can be proposed to prevent and reduce employee fraud risk?

Findings of the Study

Finding Question No. 1

The respondents had *above average* trust in organization with a mean 3.76 and standard deviation of .56 as a whole. They had *above average* trust in organization specifically in terms of *competence, reliability, identification, and honesty*. However, *openness* was rated as *average* as they *sometimes* trust the openness of the management to received adequate information regarding how well they were doing their job, how they were being evaluated, and how job-related problems were handled.

Finding Question No. 2

Existence Needs. The level of perceived job satisfaction (JS) of the respondents in terms of existence needs is *above average* or respondents *almost always* satisfied ($M=3.82$; $SD=.59$) with their existence needs. However, *the facilities of*

institutions were out of date which was rated on *average* scale. This implied that respondents were more satisfied to use state-of-the-art facilities.

Relatedness Needs. The respondents were *above average* or *almost always* satisfied on relatedness needs with a rating of 4.11 ($SD=.62$). They perceived themselves as *almost always* satisfied with their job security in the future as *they enjoyed with the challenging work, their skills were not meaningless to the organization, as they thought that organization needs their experience as well, and they had no fear of losing their job in the future.*

Growth Needs. The growth need's degree of satisfaction was achieved on a mostly *average* level ($M=3.27$; $SD=.77$), or respondent were *sometimes* satisfied with this need's degree. The respondents seemed to be *sometimes* being rewarded for their loyalty yet *sometimes* not as the highest rank. However, they had *average* (sometimes) opportunities to be placed in higher positions as the least rank in their satisfaction level. The extent of the mediating role of job satisfactions (JS) of the respondents' perception was above average with a mean of 3.74 ($SD=.50$). The respondents garnered the highest score in relatedness needs degree, and followed by existence needs degree which is interpreted as above average, and the lowest score in growth needs degree was average.

Finding Question No. 3

Pressure. The majority of respondents perceived that employees in their organization had an average degree of pressure that motivates them to fraud risk. Mostly, this pressure of fraud risk factor sometimes comes from employees who have desire for luxurious lifestyle as the 1st rank.

Opportunity. Respondents had rated below average ($M=2.30$; $SD=.71$) risk on opportunities of fraudulent activities or rarely to have fraud opportunities in organization. The means of opportunities of committing fraud were rated as average for the item when recorded, that everyone who has not been trained in accordance with the control procedures had the highest rank, this seems to have sometimes happened to them.

Rationalization. Generally, the respondents rated their rationalizations on fraud

risk to be below average ($M=1.97$; $SD=.67$). The respondents rated themselves with average risk degree for implementing physical access control as the highest rank which is indicated that management sometimes implemented physical access control and sometimes not as respondents' rationalization reasons to engage with.

EFR. The level of EFR degree of the respondents was below average with a mean of 2.28 ($SD=.54$) as a whole. The respondents garnered the highest score on pressure risk degree which was interpreted as average, and was below average in terms of opportunities and rationalizations.

Finding Question No. 4

It was found that all OTs' dimensions were significantly correlated with JS as indicated by its significant value ($r=.719$, $Sig. = .000$) which was less than 0.01 margin of error. Hence, H_0 is rejected.

Finding Question No. 5

It was founded, all OTs' dimensions were significantly correlated with EFR factors, as indicated by its significant value ($r = -.549$, $Sig. = .000$) which was less than 0.01 margin of error. Thus, H_0 is rejected.

Finding Question No. 6

It was found, JS dimension degree was significantly correlated with EFR factor which indicated a significant value ($r = -.532$; $Sig. = .000$) which was less than 0.01 margin of error. Thus, ***H_0 is rejected.***

Finding Question No. 7

Organizational Trust (OT). In general, it was found that more than 33% of the total variance in the EFR can be explained by three (3) dimensions of OT as the best predictors to EFR, namely: *reliability* (24.6%), *honesty* (6.1%) and *competence* (2.6%).

Job Satisfaction (JS). It was found that almost 32% of the total variance can be explained with three (3) dimensions in JS, namely: *existence needs* (26.7%), *relatedness needs* (4.3%), and *growth needs* (0.8%).

Moderator variables. It was found that 0.6% and 0.9% of the total variance of *pressure* (with negative unstandardized coefficients of $-.044$) and *opportunities* (with

negative unstandardized coefficients of -.121) EFR's factors can be explained by the "number of years in current position" and the difference of "current position," respectively. This implied that the higher "number of years in current position" and "current position" of employees, the lower their pressure and opportunities to engage in fraudulent activities, respectively.

However, the variable of "number of years in current position" had a positive unstandardized value which contributed .5% of the variance to employees' fraud rationalization. This indicates that the longer number of years the respondent held their current position, the higher their tendency to make rationalizations of fraud in their organization.

Finding Question No. 8

Result of the model found that OT had indirect effect to EFR through JS. JS contributed 75.69% to explain the effect of OT on EFR. Hence, H_0 is rejected. Therefore, JS contributed as much to explain the effect of OT on EFR.

When grouped according to demographic profile of respondents; the current position (CP) had indirect effect to EFR through the mediation of JS. JS, as mediator, enhances 1% the relationship between CP and EFR. Thus, H_0 is rejected. Therefore, JS contributed much to explain the effect of OT on EFR.

Finding Question No. 9

In order for a fire to occur, three elements are necessary as well: 1) oxygen, 2) fuel, and 3) heat. These three elements make up the "fire triangle". When all three elements come together, there is fire. Therefore, fire-fighters know that a fire can be extinguished by eliminating any one the three elements. Heat is most commonly eliminated by pouring water on fires, fuel is removed by shutting off the source of the fuel, and oxygen is eliminated by smothering or using chemicals. As with the elements in the fire triangle, these three elements in the fraud triangle are interactive. With fire, the more flammable the fuel, the less oxygen and heat it takes to ignite. Similarly, the purer the oxygen, the less flammable the fuel needs to be to ignite. In the case of fraud, the greater the perceived opportunity or the more intense the pressure, the less rationalization

it takes to motivate someone to commit fraud. Likewise, the more dishonest a perpetrator is, the less opportunity and/or pressure it takes to motivate fraud. Therefore, the successful implementation of such control begins with the control environment of the organization. However, the organization trust culture and employee's job satisfaction such as *honesty* and satisfaction *existence needs* dimensions are the significant predictors of employee fraud risk which had significant relationship with those factors. This means, less honesty makes it easier to rationalize, thus requiring less perceived opportunity and/or pressure for fraud to occur. Therefore, in order to anticipate some degree of risk of employee fraud, the organization must need a balanced strategy between internal control and management of employee's behaviour.

PROPOSED EMPLOYEE FRAUD RISK PREVENTION AND REDUCTION MODEL

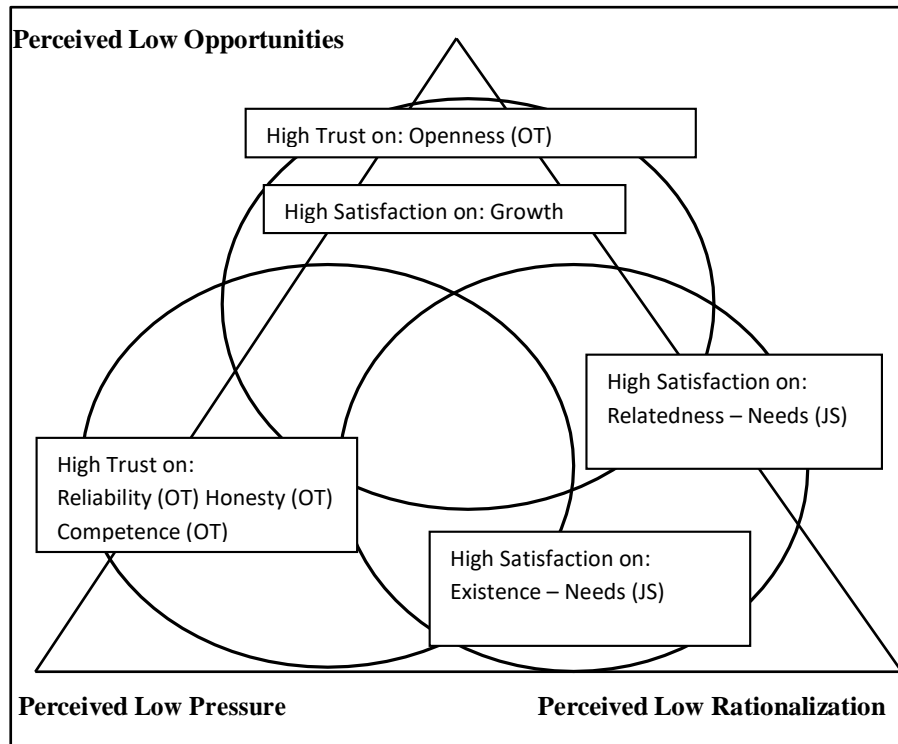


Figure 1. *The Employee Fraud Risk Prevention & Reduction Model*

The proposed model was designed based on findings to prevent and reduce the potential employee fraud risk through the implementation of each dimension of high organizational trust and job satisfaction with the outcomes on low pressure, opportunity and rationalization of employee fraud risk in SDA tertiary school institutions. Thus, the model that can prevent and reduced EFR as perceived:

- a. Low Pressure Risk environment; through creating and maintaining high-trust culture on *honesty, reliability, competence* and high- satisfaction on *existence needs* in organization.
- b. Low Opportunities Risk environment; through creating and maintaining high-trust culture on all dimensions of OT (*reliability, honesty, competence, openness, and identification*) and JS (*existence needs, relatedness needs and growth needs*) in organization.
- c. Low Rationalization Risk environment; through creating and maintaining high-trust culture on *honesty, reliability and competence* in organization.
- d. Low Employee Fraud Risk by creating and maintaining environment with high-trust culture on *reliability, honesty and competence* in organization.

Conclusions

Based on the findings of the study above, the following conclusions were made, they are:

1. The Organizational Trust Level
The organizational trust level of respondents was *above average* as they would almost always trust the *competence, reliability, identification, and honesty* of their organization, but sometimes distrust the *openness* of the management.
2. The Job Satisfaction Level
 - a. The job satisfaction level of respondents was *above average* in terms of its extent of the relationship of OT on EFR.

- b. The respondents were almost always satisfied with their *existence needs* and *relatedness needs* degree. The *growth need's degree* of satisfaction was achieved on a mostly *average* level.
3. The Employee Fraud Risk Level
The employee fraud risk level of respondents was *below average*. *Pressure* was found to be employees' primary reason to EFR with employees who have desire for luxurious lifestyle. They had *below average* risk on *opportunities* and *rationalization* which is caused on the following reasons that everyone has not been trained in accordance with the control procedures, and management *sometimes* implemented physical access control and sometimes not as respondents' rationalization reasons to engage with, respectively.
4. Relationship among the Variables
 - a. OT and JS: There is a significant relationship between OT dimensions and JS degree of the respondents' perception. Hence, respondents who had more trust to their organization in terms of competence, honesty, openness, reliability, and identification were more satisfied to work in the organization.
 - b. OT and EFR: There is a negative and significant relationship between OT dimensions and EFR factors of the respondents' perception. Therefore, the more employees trust the competence, reliability, identification, honesty and openness of their organization, the lower their level of EFR in the organization.
 - c. JS and EFR: There is a negative and significant relationship between JS degree and EFR factors of the respondents' perception. Therefore, the respondents who were more satisfied with their job in terms of existence, relatedness, and growth needs had lesser tendency to commit fraud.
5. The Predictors to The Employee's Fraud Risk
The best predictors to EFR are *reliability, honesty, competence, existence needs, relatedness needs, and growth needs*.
6. Job Satisfaction's Mediating Role to the Effect of OT on EFR

- a. There is no direct effect between OT and EFR. The relationship of OT and EFR is fully mediated by JS. In fact, the relation of OT and EFR is because of JS.
- b. On other hand, JS as mediator enhances the relationship between CP and EFR. The difference of employees' position through their job satisfaction is significance to EFR. Hence, the higher the position of employees, the lower the fraud risk of employees in an organization.

Recommendations

The following are recommendation given on the study:

1. Board Members, Administrators and Management
 - a. Have designed a system to manage fraud risk among the top officer.
 - b. Have responsibility to ensure the expectations of honesty and integrity to all level of employees which adhere to the policy and procedure or code of conducts.
 - c. Should evaluate and observe employee's behavior which is indicated fraudulent acts caused by employees' dissatisfaction in ERG needs; and distrust with reliability, honesty, and competence.

Considering those factors, management has promotes the development of high-trust and high-satisfaction in organization through some approaches:

- i. Creating high-trust culture on Reliability:
 - a. Top management has consistent with their words and actions to follow the policies, with zero tolerance of any fraudulent activity to any level of employees.
 - b. Immediate supervisors and top management keep commitments consistently with team members to create positive working environment with fair employment practice and ensure is trained in them including to the consequences or punishment of violators with open lines of communication.

- c. Immediate supervisors behave ethically with consistent manner and high integrity as leading employees by example to reduce employees' rationalizations for being inconsistent between what they do and what they know they should do.
 - ii. Creating high-trust culture on Honesty

The management should set open line communication standard with interaction courtesy and feedback mechanism between management and employees.
 - iii. Creating high-trust culture on Competence

The organization has to evaluate and develop capability of management to create a good system of controls, such as control environments.
- 2. Accounting, Finance and Internal Audit Department
 - a. The management in accounting, finance and internal audit department should have a good accounting system as well as control physical access to premises, cash register, computer systems, safes and other secure systems.
 - b. Ensuring that every employees implementing physical access control which doors, desks, filing cabinets, and cash registers are always locked,
 - c. Monitoring employees' behavior which is indicated either desire for luxurious lifestyle, pressure to meet financial obligations, employee appears to be spending or living beyond their means, as well as their dissatisfactions with some aspects of the job that may indicate a heightened probability to commit fraud.
 - d. Considering difference of employees' position and number of years in current position, especially for area positions that may have difficulty in segregation duties for approval, review, and authorizations due to limited budget in particular department.
- 3. Human Resource Management
 - a. Having high-trust on openness by creating open lines of communication between management and employees.

- b. Building high-trust on Identification through control and monitoring environment factors of employees' behaviors and their ethical value
 - c. The recognition, promotion and advancement, awards and merit should be given fairly to deserving employees because of their contributions in the high achievement.
 - d. Creating and maintaining periodical adjustment for salary and other monetary benefits, such as inclusive fringe benefits, compensation and benefits competitively.
4. Researchers
- a. Since the predictive model for EFR shows that the change in EFR was insignificant due to change in OT, and the variables of *concern of employees* and *interpersonal relation* had been removed due to reliability and validity test. Further researcher should be conducted to determine factor that affect EFR other than OT and JS in different population and industries.

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